

FDIC State Profile

Summer 2005

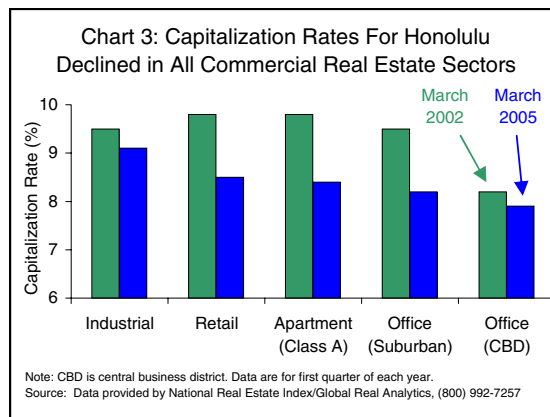
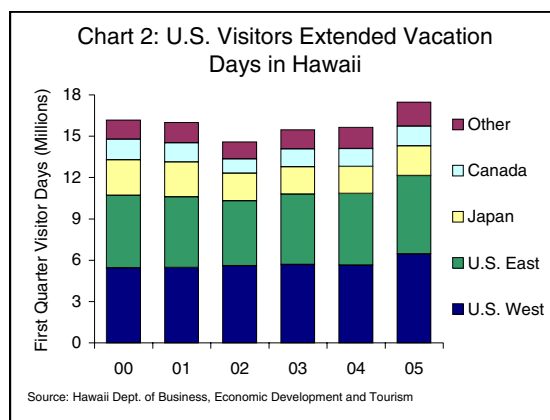
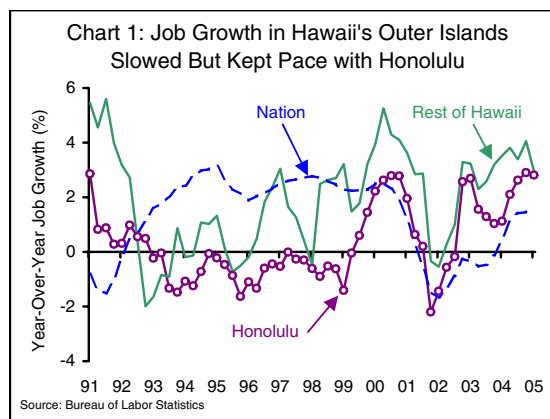
Hawaii

Hawaii job growth improved to 2.9 percent in first quarter 2005, ranking seventh nationwide.

- Tourism-related sectors, including leisure and hospitality, retail trade, and transportation continued to lead job gains in Hawaii. The tourism sector also fed **Honolulu** employment growth, which moderated slightly in first quarter 2005 but still ranked in the top third of all metropolitan areas nationwide (See Chart 1).
- Hawaii's first quarter growth in visitor arrivals, visitor days, and visitor expenditures all topped 11 percent compared with first quarter 2004. Western U.S. visitor days accounted for much of the gain, surging 14 percent, but visitor days among Eastern U.S. and international tourists also increased (See Chart 2). Visitor days improved across all of the major islands except **Lanai**; the **Big Island** reported the strongest gain (31 percent).
- The Hawaii construction sector accounted for nearly 20 percent of all new jobs in first quarter 2005, a result of continued private and military housing construction.
- Despite strong job gains to date, tight labor markets and higher interest rates may dampen future growth.¹
- Recent Base Realignment and Closure (BRAC) recommendations included three of the state's military facilities. Although one of the state's largest employers, Hickam Air Force Base, is on the list, direct statewide BRAC-related losses may be limited to about 300 positions.

Commercial real estate (CRE) markets remained strong.

- The Honolulu office market experienced a slight year-over-year vacancy rate hike in early 2005 because of negative absorption. Nevertheless, the market was in good shape relative to the last several years and is expected to remain stable through 2005.
- Conditions in the Honolulu retail and apartment markets are stabilizing; construction has slowed and vacancy rates should remain low relative to the national average.



¹Forecast from Economy.com (April 2005) and University of Hawaii Economic Research Organization (June 2, 2005).

State Profile

- Honolulu capitalization rates have declined since 2002, in response to the general decline in interest rates (See Chart 3). Any increases in interest rates have the potential to pressure capitalization rates and future property values.
- Notwithstanding a year-over-year decline in the median CRE loan²-to-Tier 1 capital ratio to 122 percent, most Hawaii-based insured institutions individually reported year-over-year increases in CRE loan concentrations.³
- Hawaii's three largest insured institutions reported slight year-over-year increases in past-due CRE loans, while delinquencies declined at the other four institutions. Regardless, the median past-due CRE loan ratio among all Hawaii-based institutions of 0.32 percent was low in relation to a national median of 0.55 percent.

Hawaii home price gains continued in early 2005.

- Home and condo sales during March 2005 recorded strong price gains compared with March 2004, especially on the Big Island and Maui (See Chart 4). In addition, Honolulu was identified in a recent FDIC study as one of 55 "boom" markets nationwide.⁴
- Hawaii's rate of home price growth has slowed since third quarter 2004, but still ranks third nationwide. Home price appreciation continued to outpace personal income gains, pressuring affordability (See Chart 5).
- Hawaii-based commercial banks report relatively high exposures to mortgage-related assets, in particular mortgage-backed securities and variable-rate mortgage products (See Chart 6). Securities may provide geographic diversification; however, high exposures to adjustable-rate mortgages and home equity lines may pressure credit quality if interest rate increases outstrip borrower repayment capacity. Loan performance remains favorable, as the first quarter past-due mortgage ratio among all Hawaii-based institutions declined year-over-year to 0.36 percent.

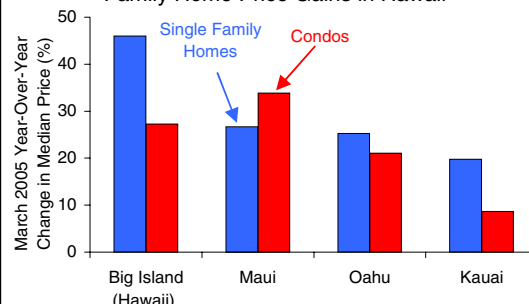
Narrower margins and reduced loan and securities sales gains weighed on some insured institution earnings.

- As of first quarter 2005, year-over-year pre-tax return on assets (ROA) improved among four of the state's seven insured institutions. Rising short-term interest rates and

growing loan-to-asset ratios enabled most institutions to expand net interest income-to-total asset performance.

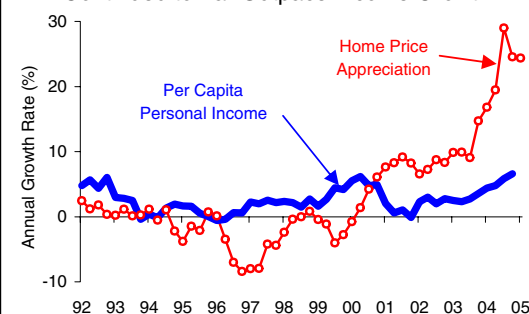
- First quarter overhead ratios declined among most institutions, and improving credit conditions eased provision expense burdens. The strong Hawaiian economy fostered a decline in the median past-due loan ratio to 0.61 percent, well below a nationwide median of 1.48 percent.

Chart 4: The Big Island Posted the Highest Single Family Home Price Gains in Hawaii



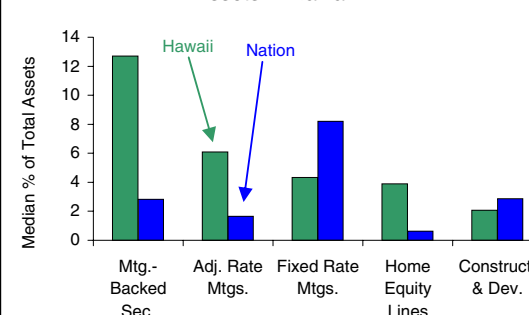
Sources: Hawaii Information Services; Realtors Association of Maui; Honolulu Board of Realtors via Honolulu Star-Bulletin

Chart 5: Hawaii Home Price Appreciation Continued to Far Outpace Income Growth



Source: Bureau of Economic Analysis, Office of Federal Housing Enterprise Oversight

Chart 6: Securities Dominated Mortgage-Related Assets in Hawaii



Source: FDIC (Call Report filers only, March 31, 2005)

²Commercial real estate loans include construction, multifamily, and nonfarm-nonresidential mortgages.

³The merger of two institutions during the year influenced median results because of the small number of institutions based in the state.

⁴Cynthia Angell and Norman Williams, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005. <http://www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html>. A boom market is defined as one in which inflation-adjusted home prices rose by at least 30 percent during the 2001-2004 period.

Hawaii at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.9%	1.7%	2.8%	-1.2%	2.4%
Manufacturing (3%)	1.1%	4.3%	-6.0%	-5.8%	3.1%
Other (non-manufacturing) Goods-Producing (5%)	10.3%	2.9%	9.5%	-0.9%	6.4%
Private Service-Producing (72%)	3.5%	2.2%	2.9%	-2.5%	3.0%
Government (20%)	-0.7%	-0.3%	2.4%	3.8%	-0.5%
Unemployment Rate (% of labor force)	2.9	3.6	3.8	4.6	3.9

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	5.8%	3.9%	3.6%	2.8%
Single-Family Home Permits	38.2%	2.0%	65.4%	-20.4%	31.8%
Multifamily Building Permits	-76.5%	97.0%	1969.2%	-67.5%	-23.1%
Existing Home Sales	14.7%	1.2%	22.3%	22.8%	5.8%
Home Price Index	24.4%	16.7%	9.9%	6.6%	7.6%
Bankruptcy Filings per 1000 people (quarterly level)	0.62	0.67	0.77	1.01	1.07

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	7	8	9	10	10
Total Assets (in millions)	34,560	32,554	30,548	29,573	30,515
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	0	0	0	0	0

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.61	0.87	1.62	1.77	2.04
ALLL/Total Loans (median %)	1.58	1.79	1.87	1.90	1.82
ALLL/Noncurrent Loans (median multiple)	9.67	4.73	2.88	1.79	1.24
Net Loan Losses / Total Loans (median %)	0.27	0.28	0.28	0.40	0.49

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	7.47	8.24	8.58	8.62	8.78
Return on Assets (median %)	1.10	1.11	1.03	0.92	0.88
Pretax Return on Assets (median %)	1.78	1.56	1.56	1.46	1.40
Net Interest Margin (median %)	4.16	4.09	4.11	4.05	4.38
Yield on Earning Assets (median %)	6.70	6.62	6.71	6.71	7.23
Cost of Funding Earning Assets (median %)	2.53	2.31	2.24	2.28	2.76
Provisions to Avg. Assets (median %)	0.21	0.20	0.23	0.30	0.38
Noninterest Income to Avg. Assets (median %)	0.71	0.69	0.66	0.58	0.53
Overhead to Avg. Assets (median %)	2.94	2.83	2.84	2.91	3.04

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	51.3	59.5	59.2	57.4	65.8
Noncore Funding to Assets (median %)	25.8	25.4	24.9	30.5	31.5
Long-term Assets to Assets (median %, call filers)	21.1	18.8	17.7	14.6	20.5
Brokered Deposits (number of institutions)	4	3	1	0	2
Brokered Deposits to Assets (median % for those above)	0.1	0.1	0.0	0.0	0.1

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	109.2	112.6	85.8	75.9	105.9
Commercial Real Estate	122.0	211.8	125.8	108.0	107.3
<i>Construction & Development</i>	22.3	25.9	18.5	17.4	15.0
<i>Multifamily Residential Real Estate</i>	7.1	8.8	8.1	7.9	9.8
<i>Nonresidential Real Estate</i>	86.1	116.7	92.0	63.0	68.6
Residential Real Estate	209.7	251.9	307.5	280.6	307.8
Consumer	20.1	29.8	29.5	33.0	34.9
Agriculture	0.6	0.7	0.6	0.7	0.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Honolulu, HI	10	18,402	< \$250 million	0 (0%)
			\$250 million to \$1 billion	2 (28.6%)
			\$1 billion to \$10 billion	4 (57.1%)
			> \$10 billion	1 (14.3%)